

Macroeconomic Policies

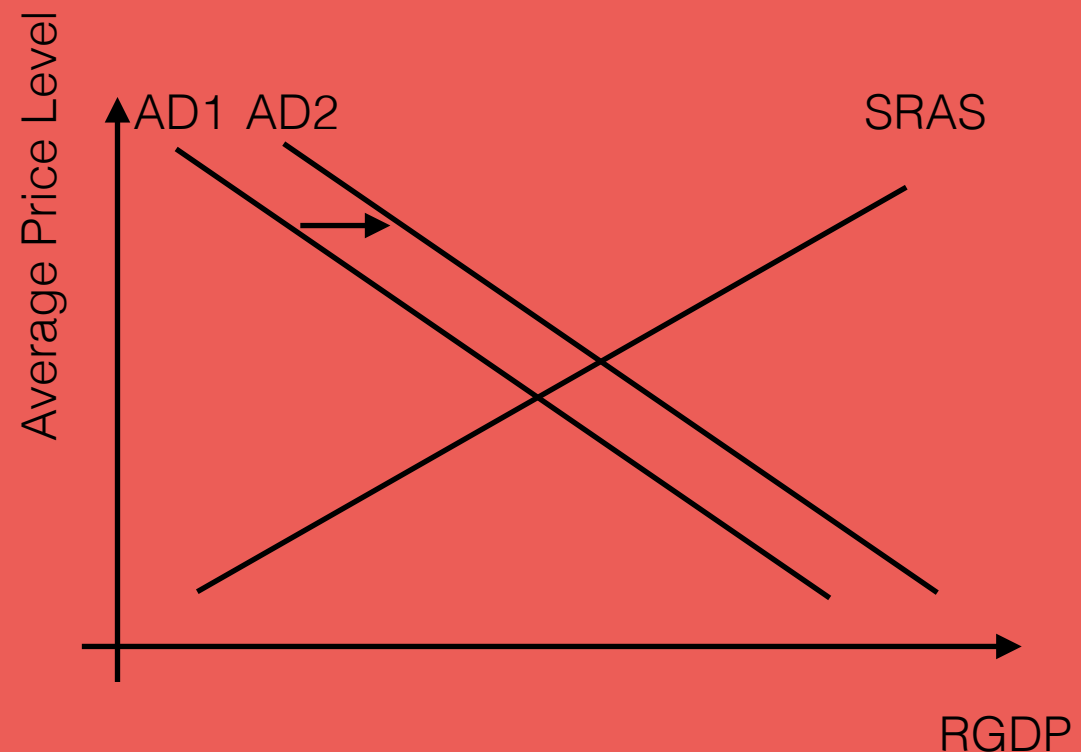
Sally + Sabrina +.... Chris?

Demand-side Policies

Aggregate demand

Fiscal Policy

Monetary Policy



Fiscal Policy

Direct/indirect taxes

Government spending

Expansionary vs. Contractionary

Monetary Policy

Supply of money

Level of interest rates

Expansionary vs. Contractionary

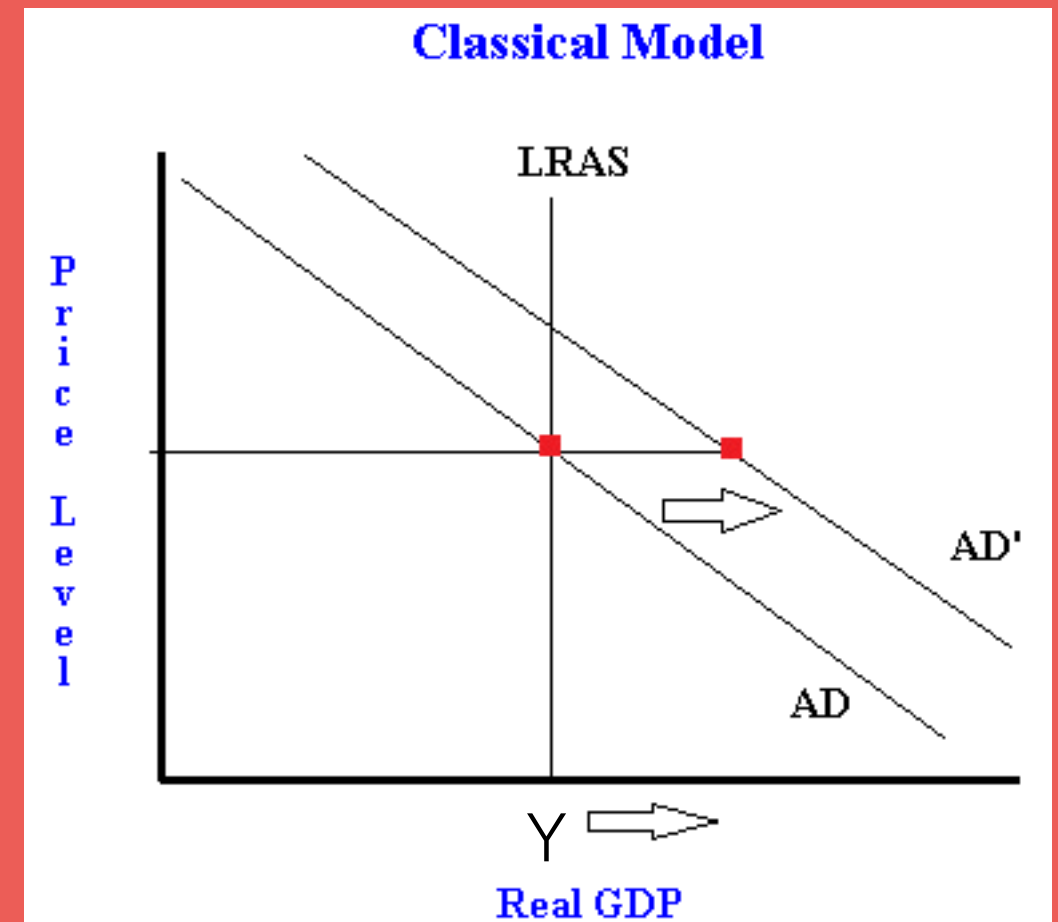
Evaluation

Consumer/business confidence

Lag

Short-term

Inflation



Crowding Out

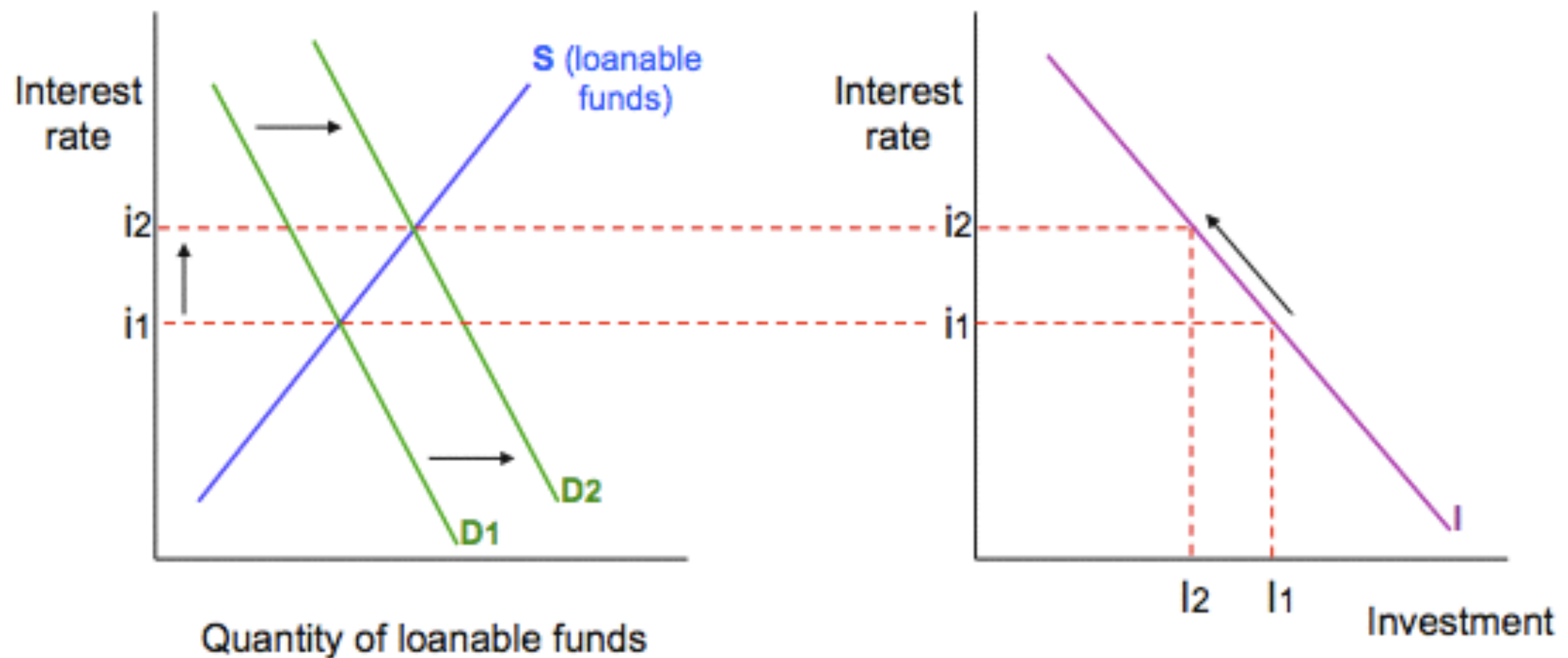
Selling bonds to borrow money

Demand for saving ↗

Investment ↘

Crowding Out

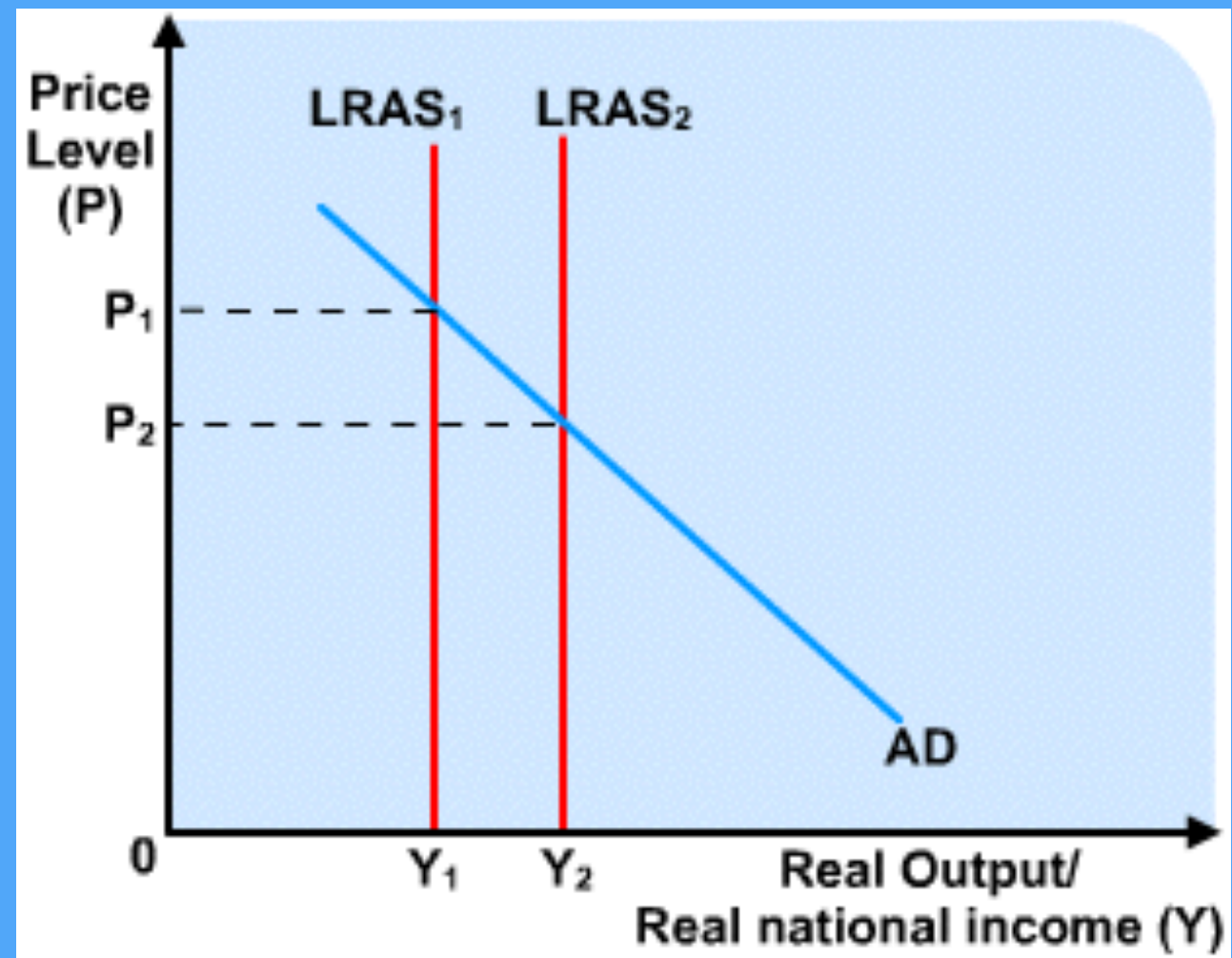
Crowding out:



Supply-side Policies

Interventionist

Market-based



Interventionist Supply-side Policies

Investment in human capital

R&D

Provisions and maintenance of infrastructure

Direct support

Evaluation

- Not considered controversial
- Both demand and supply side implications
- Time-lag
- Depends on the government's ideological aims and budget constraints
- Opportunity cost

Market-Based supply-side policy

- Supply-side policies: increase potential output of economy
- Quantity and/or quality of factors of production
- Minimal government intervention
- “Incentives” to increase productivity

Examples

- Reduction in household income taxes
- Reduction in corporate taxes
- Labour market reforms
- Deregulation
- Privatisation
- Policies to increase competition

Explanation

- Reduction in household income taxes
- Work harder -> Earn more -> More taxes
- Higher taxes act as disincentive
- Decrease taxes, increase incentive to work harder
- Increase in productivity -> Increase in LRAS -> Increase in R.O.

Evaluation

- Decrease standards of living (minimum wages, unemployment benefit, trade union power)
- Increased income inequality
- Environmental consequences/sustainability (deregulation)
- Negative externalities of production

Example problems

- With the help of diagrams, explain the effects of reduction in unemployment benefits
- Analyze how policies to encourage competition may affect the supply-side of an economy

THANK YOU!